



DEAN ANDAL
Chairman, Board of Equalization

Agriculture Update

Sales of Innoculents Exempt from Taxation

The California Grain and Feed Association (CGFA) recently wrote to the Board of Equalization regarding the taxability of products generally known as “silage or haylage inoculents”. According to the CGFA, inoculents are added to silage and haylage (forms of animal feed consumed by dairy cattle) to enhance the quality of the feed.

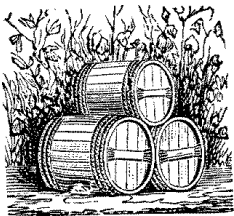
Current law provides an exemption for “feed for any form of animal life the products of which ordinarily constitute food for human consumption, or are to be sold in the regular course

of business.” (Revenue & Taxation Code Section 6358.)

The question at hand: Are the inoculents considered part of the feed?

Legal staff determined that products sold to be used as an ingredient of feed for food animals are, in fact, exempt since they remain part of the feed and do not merely treat the feed prior to consumption by the animal.

As such, silage and haylage inoculents that remain on the feed consumed by the cattle are exempt from sales tax under current law. More good news for the agriculture industry!



Property Tax Rule 133: Oak Wine Barrels

On June 26th, the Office of Administrative Law approved Property Tax Rule 133 to provide that oak wine barrels are exempt from property taxes under the business inventory exemption.

The wine industry, particularly vintners from the central coast region of California, brought this issue to the Board’s attention a few years ago. Since then, the Board has excluded oak wine barrels from the sales tax (see Regulation 1525) due to the fact that

the barrels are used to impart flavor and other benefits to the wine. Now, based on similar reasoning, the Board has followed up with changes to the property tax law.

Claims for refund may be filed directly with your particular county – however, if you have any questions regarding this process, Gordon Ferguson in the Board of Equalization’s Property Taxes Department at (916) 322-3815 would be happy to assist you.

Recent Legislation

Property Tax Exemption: Newly Planted Trees and Vines.



SB 1014 (Poochigian) – Chapter 291 of 1999

Allows owners of currently exempt trees damaged in the December 1998 freeze to reclaim the four-year growing crop property tax exemption if their trees had to be severely pruned back. This change was sought to provide some relief to farmers whose orchards may not produce a sellable crop for several years due to the fact that their land can not be put to any other productive use during the recovery period.

Tax Relief: Vineyards: Pierce’s Disease.

AB 1790 (Wiggins) – pending in the State Senate

Deletes a requirement in current law that provides replacement grapevines must be of the “same type” for the purposes of property tax base year value transfers. If enacted, this change will

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TAX ADVICE

Question: If a farmer goes on-line and buys a piece of farm machinery from an out-of-state retailer, does he owe use tax on the purchase? (*asked by Far West Equipment Dealers Association*)

BOE Response: Tax applies to the farmer's Internet purchase of machinery for use in California. If the out-of-state retailer is engaged in business in California, the retailer is required to register with the Board and collect, report and pay tax on their taxable sales to California customers. If the out-of-state retailer is not engaged in business in California, the farmer or purchaser is responsible to report and pay (use) tax on his/her purchase. "Engaged in business in California" means having a physical presence in this state – via an office, place of distribution or sales room, or through a representative, agent or sales person. (*See Revenue & Taxation Code Section 6203.*)



LEGISLATION

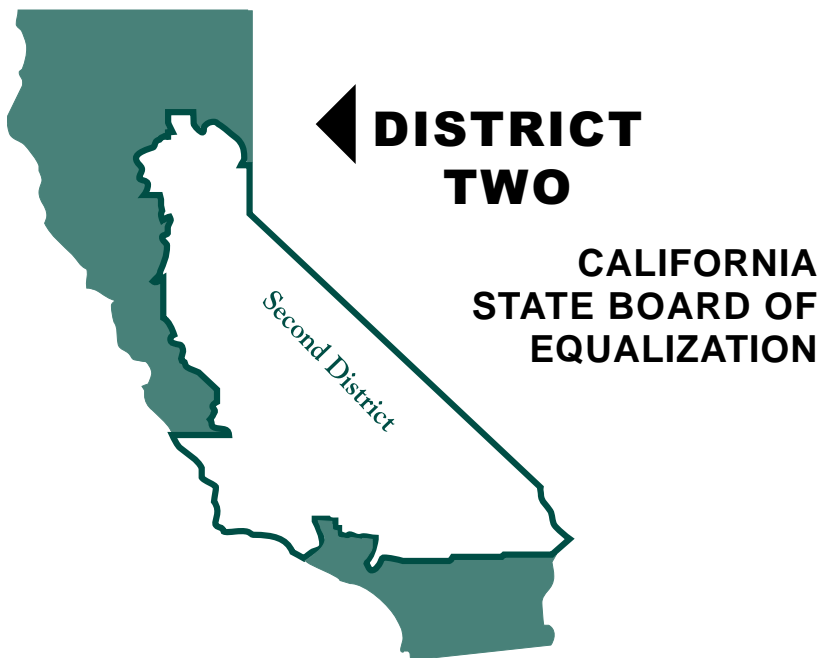
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allow grapevines that have been replaced due to Pierce's Disease or phylloxera to claim the previous assessed (lower) value of the removed grapevines.

Grapevines: Manufacturing Enhancement Areas.

SB 1445 (Kelley) – pending in the State Assembly

Repeals the limit in current law that requires grapevines replacing those infected with Pierce's Disease of phylloxera to be less than 15 years of age. If enacted, this will allow the base year value to be retained for all infested vines, regardless of age. The bill also includes a provision that allows agricultural production to be among the trades and businesses that may claim tax credits applicable to manufacturing enhancement areas.



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